

Washington County Hospital

Accountants' Report and Financial Statements

June 30, 2006 and 2005



Washington County Hospital

June 30, 2006 and 2005

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Supplementary Information	
Combining Balance Sheet – June 30, 2006	26
Combining Schedule of Revenues, Expenses and Changes in Net Assets – Year Ended June 30, 2006	28
Schedules of Patient Service Revenues	29
Schedules of Other Revenues	30
Schedules of Operating Expenses	31
Schedules of Patient Receivables and Allowance for Uncollectible Accounts	32
Schedule of Officials	33
Schedule of Supplies and Prepaid Expenses	34
Schedule of Insurance Coverage	35
Statistical Information	36
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Schedule of Findings and Responses	41



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Washington County Hospital
Washington, Iowa

We have audited the accompanying balance sheets of Washington County Hospital as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington County Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of Washington County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
August 31, 2006

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2006 and 2005

Introduction

The management's discussion and analysis of the financial performance of Washington County Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash, short-term investments, assets held under indenture agreement – current and noncurrent cash and investments decreased in 2006 by \$1,122,992 or 12% from 2005 and increased in 2005 over 2004 by \$2,547,694, or 39%.
- The Hospital's net assets increased in each of the past two years with a \$966,656 or 8% increase in 2006 and \$1,790,216 or 16% increase in 2005.
- The Hospital reported operating income (loss) of \$(249,038) and \$901,424 in 2006 and 2005, respectively.
- Net nonoperating revenues increased by \$326,902 and \$73,918 or 37% and 9% in 2006 and 2005, respectively.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and The Statement of Revenues, Expenses and Changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting.

Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what cash was used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$966,656 (8%) in 2006 over 2005 and \$1,790,216 (16%) in 2005 over 2004, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2006	2005	2004
Assets			
Patient accounts receivable	\$ 2,245,661	\$ 2,522,275	\$ 2,359,084
Other current assets	5,164,420	6,091,767	5,024,264
Noncurrent cash and investments	3,946,567	4,008,471	2,549,668
Capital assets, net	7,881,570	6,176,340	6,706,860
Other	<u>250,165</u>	<u>49,273</u>	<u>57,167</u>
Total assets	<u>\$ 19,488,383</u>	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>
Liabilities			
Current liabilities	\$ 3,297,612	\$ 3,269,011	\$ 2,573,144
Long-term debt	<u>2,550,000</u>	<u>2,905,000</u>	<u>3,240,000</u>
Total liabilities	<u>5,847,612</u>	<u>6,174,011</u>	<u>5,813,144</u>
Net Assets			
Invested in capital, net assets	4,725,380	2,841,230	2,833,791
Restricted expendable	745,582	719,793	627,216
Unrestricted	<u>8,169,809</u>	<u>9,113,092</u>	<u>7,422,892</u>
Total net assets	<u>13,640,771</u>	<u>12,674,115</u>	<u>10,883,899</u>
Total liabilities and net assets	<u>\$ 19,488,383</u>	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>

Operating Results

The Hospital's Increase in Net Assets was \$966,656 in 2006 and \$1,790,216 in 2005, as shown in Table 2.

Table 2: Operating Results

	2006	2005	2004
Operating Revenues			
Net patient service revenue	\$ 17,823,345	\$ 16,768,374	\$ 15,099,239
Other operating revenues	<u>342,930</u>	<u>376,219</u>	<u>360,521</u>
Total operating revenues	<u>18,166,275</u>	<u>17,144,593</u>	<u>15,459,760</u>
Operating Expenses			
Salaries, wages and benefits	10,008,276	9,105,585	7,957,800
Other operating supplies and expenses	7,463,297	6,240,936	5,821,740
Depreciation and amortization	<u>943,740</u>	<u>896,648</u>	<u>891,606</u>
Total operating expenses	<u>18,415,313</u>	<u>16,243,169</u>	<u>14,671,146</u>
Operating Income (Loss)	<u>(249,038)</u>	<u>901,424</u>	<u>788,614</u>
Nonoperating Revenues (Expenses)			
Property tax revenue	714,751	704,410	734,006
Investment income	338,987	276,910	175,246
Interest expense	(157,420)	(174,505)	(200,836)
Noncapital contributions	288,792	49,915	77,245
Foundation gift shop, net	<u>30,584</u>	<u>32,062</u>	<u>29,213</u>
Total nonoperating revenues	<u>1,215,694</u>	<u>888,792</u>	<u>814,874</u>
Increase in Net Assets	<u>\$ 966,656</u>	<u>\$ 1,790,216</u>	<u>\$ 1,603,488</u>

The primary reasons for the change in financial performance in 2006 were:

- Recruitment of additional specialty physicians
- Self-pay account receivable management process improvement project
- Facility replacement and renovation project

Net patient service revenue, before provision for uncollectible accounts increased 9.7% in 2006 or approximately \$1,692,000 primarily due to increased utilization of Hospital outpatient services. The Hospital was successful in recruiting a new general surgeon and two OB/GYN's which generated additional patient encounters that had previously left the community.

The provision for uncollectible accounts increased \$637,414 from 2005 due to a process change in the business office private pay collection process. The procedure to identify potential bad debts and their subsequent write-off was accelerated from 210 days to 120 days.

During 2006, the Hospital committed to a \$17,500,000 hospital replacement project. Specific costs related to demolishing and removing two hospital buildings totaling \$329,923 are recorded as operating expense. Additional labor and purchased service expenses have been incurred this fiscal year due to inefficiencies created as Hospital staff vacates and relocates to temporary space and operational changes required by the construction schedule.

Salaries and wages including benefits increased \$902,691 or 9.9%, due to increases related to the specialty physician clinics and to annual salary adjustments to align wage rates with local market conditions.

The primary reasons for improved performance in 2005 were:

- Net patient service revenues increased \$1,669,135 or 11.1%
- Operating expenses increases held to \$1,572,023 or 10.7%.

Net patient service revenues increased 11.1% in 2005 primarily due to increased utilization of inpatient and swing-bed (SNF) services. Outpatient utilization continues to improve with the installation of a new bone densitometer in November 2004 and a new 16 slice CT scanner in December 2004.

In 2005, the Hospital recorded a significant amount of billable supply revenue in the departments disbursing the supplies. Thus, the central service and supply revenues were decreased as noted in the Schedules of Patient Services Revenues.

The provision for uncollectible accounts increased \$165,195 or 36.0% due to patient non-compliance in paying for services in a timely manner. Operating expenses increased 10.7% in 2005 primarily due to employee salaries and benefits expense. Salaries and wages including benefits increased \$1,147,785 or 14.4%, due to annual salary adjustments to align wage rates with local market conditions and higher employee health insurance expense.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of county property taxes levied by the Hospital and interest income and investment earnings. The Hospital's county tax levy was \$714,751 in 2006, up from \$704,410 for 2005. Investment income increased \$62,077 over 2005 due to higher rates received on invested funds. Noncapital contributions increased \$210,450 due to the sale of certain land held as investment property.

Nonoperating expenses consist of interest expense on long-term debt. Long-term debt consists of Hospital Revenue Bonds issued in 1997 for 2006 and 2005.

The Hospital's Cash Flows

The Hospital's Cash from Operating Activities was \$516,235 in 2006 compared to \$2,569,014 in 2005. Changes in the Hospital's cash from operating activities are consistent with changes in operating income (loss) and nonoperating revenues and expenses.

The Hospital's Cash from Operating Activities increased \$760,340 in 2005 over 2004 primarily due to overpayments of interim rates by Medicare.

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier, with the following exceptions. In 2005, the Hospital had a significant increase in investing activity, investing \$893,104 in deposits and investments when the prior year was only \$497,342.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the Hospital had \$7,881,570 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital purchased new capital assets costing \$2,656,678, including amounts in construction in progress of \$1,914,741 related to the new building project.

At the end of 2005, the Hospital had \$6,176,340 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2005, the Hospital purchased new capital assets costing \$359,682, none of which was acquired through incursion of capital lease obligations.

Debt

At June 30, 2006, the Hospital had \$2,905,000 in revenue bonds. The Hospital issued no new debt in 2006.

At June 30, 2005, the Hospital had \$3,240,000 in revenue bonds. The Hospital issued no new debt in 2005.

Factors Bearing on Washington County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of two existing circumstances that could significantly affect its financial health in the future:

- **Facility Replacement and Renovation Project.** The Hospital Trustees are replacing the current Hospital patient care areas with new space and renovating existing patient care areas for non-patient care services. Total construction cost is estimated at \$15,739,000 and total project cost of approximately \$19,899,000. Construction started in January 2006 and is expected to be completed in 2008.
- **Hospital / Physician Integration Project.** The Hospital Trustees and two independent physician practices have tentatively agreed to integrate into hospital-based provider clinics. The Hospital will contract for physician services based on worked relative value units provided to Hospital patients at a fair market value conversion factor amount.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer's office at Washington County Hospital, 400 East Polk Street, Washington, Iowa 52353.

Washington County Hospital

Balance Sheets

June 30, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 2,188,706	\$ 3,461,420
Short-term investments	1,262,114	1,052,804
Assets held under indenture agreement – current	503,279	500,963
Patient accounts receivable, net of allowance; 2006 – \$559,122, 2005 – \$521,000	2,245,661	2,522,275
Other receivables	14,691	21,181
Succeeding year property tax settlements	742,799	716,497
Supplies	402,187	304,483
Prepaid expenses	<u>50,644</u>	<u>34,419</u>
Total current assets	<u>7,410,081</u>	<u>8,614,042</u>
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	3,522,971	3,457,191
Externally restricted		
Indenture agreement	268,614	261,740
Donors	52,400	44,343
Certificates of deposit	—	76,348
Investment in land	<u>102,582</u>	<u>168,849</u>
	<u>3,946,567</u>	<u>4,008,471</u>
Capital Assets, net of accumulated depreciation	<u>7,881,570</u>	<u>6,176,340</u>
Other Assets		
Foundation assets	29,364	24,399
Deferred financing costs	19,058	24,874
Physician receivables	<u>201,743</u>	<u>—</u>
Total Other Assets	<u>250,165</u>	<u>49,273</u>
Total Assets	<u>\$ 19,488,383</u>	<u>\$ 18,848,126</u>

Liabilities and Net Assets

	2006	2005
Current Liabilities		
Current maturities of long-term debt	\$ 355,000	\$ 335,000
Accounts payable	452,377	422,691
Accrued expenses		
Salaries and wages	276,346	239,166
Paid time off	411,831	392,955
Payroll taxes and other payroll withholdings	80,004	112,633
Self funded health insurance payable	92,817	119,872
Interest	78,710	87,253
Deferred revenue for succeeding year property tax receivable	742,799	716,497
Property taxes	33,728	32,944
Estimated third-party settlements	<u>774,000</u>	<u>810,000</u>
Total current liabilities	3,297,612	3,269,011
 Long-term Debt, less current maturities	 <u>2,550,000</u>	 <u>2,905,000</u>
Total liabilities	<u>5,847,612</u>	<u>6,174,011</u>
 Net Assets		
Invested in capital assets, net of related debt	4,725,380	2,841,230
Unrestricted	8,169,809	9,113,092
Restricted expendable		
Debt service	693,182	675,450
Donor restricted	<u>52,400</u>	<u>44,343</u>
Total net assets	<u>13,640,771</u>	<u>12,674,115</u>
 Total Liabilities and Net Assets	 <u>\$ 19,488,383</u>	 <u>\$ 18,848,126</u>

Washington County Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 19,084,228	\$ 17,391,843
Provision for uncollectible accounts	<u>(1,260,883)</u>	<u>(623,469)</u>
Net patient service revenue	17,823,345	16,768,374
Other	<u>342,930</u>	<u>376,219</u>
	<u>18,166,275</u>	<u>17,144,593</u>
Operating Expenses		
Salaries and wages	7,830,754	7,007,476
Employee benefits	2,177,522	2,098,109
Medical professional fees	2,178,385	2,027,821
Supplies and other	2,204,841	1,931,382
General services	1,080,335	1,083,915
Administrative services	1,343,458	932,578
Depreciation and amortization	943,740	896,648
Building demolition and removal costs	329,923	—
Insurance	<u>326,355</u>	<u>265,240</u>
	<u>18,415,313</u>	<u>16,243,169</u>
Operating Income (Loss)	<u>(249,038)</u>	<u>901,424</u>
Nonoperating Revenues (Expenses)		
Investment income	338,987	276,910
Interest expense	(157,420)	(174,505)
Property tax revenue	714,751	704,410
Noncapital contributions	288,792	49,915
Foundation gift shop, net	<u>30,584</u>	<u>32,062</u>
	<u>1,215,694</u>	<u>888,792</u>
Increase in Net Assets	966,656	1,790,216
Net Assets, Beginning of the Year	<u>12,674,115</u>	<u>10,883,899</u>
Net Assets, End of the Year	<u>\$ 13,640,771</u>	<u>\$ 12,674,115</u>

Washington County Hospital

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 18,063,959	\$ 17,464,183
Payments to suppliers	(7,697,805)	(6,313,098)
Payments to employees	(10,011,120)	(8,970,061)
Other receipts and payments, net	<u>161,201</u>	<u>387,990</u>
Net cash provided by operating activities	<u>516,235</u>	<u>2,569,014</u>
Noncapital Financing Activities		
Property taxes supporting operations	714,751	704,410
Noncapital contributions	288,792	49,915
Foundation gift shop	<u>30,584</u>	<u>32,062</u>
Net cash provided by noncapital financing activities	<u>1,034,127</u>	<u>786,387</u>
Capital and Related Financing Activities		
Purchase of capital assets	(2,506,413)	(584,088)
Principal payments on long-term debt	(335,000)	(320,000)
Interest paid on long-term debt	<u>(165,963)</u>	<u>(181,977)</u>
Net cash used in capital and related financing activities	<u>(3,007,376)</u>	<u>(1,086,065)</u>
Investing Activities		
Change in deposits and investments	(550,400)	(893,104)
Income received on investments	<u>318,441</u>	<u>208,636</u>
Net cash used in investing activities	<u>(231,959)</u>	<u>(684,468)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,688,973)	1,584,868
Cash and Cash Equivalents, Beginning of Year	<u>4,196,361</u>	<u>2,611,493</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,507,388</u>	<u>\$ 4,196,361</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 2,188,706	\$ 3,461,420
Assets held under indenture agreement – current	94,466	408,891
Noncurrent cash and investments		
Capital and other expenditures	<u>224,216</u>	<u>326,050</u>
	<u>\$ 2,507,388</u>	<u>\$ 4,196,361</u>

Washington County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities		
Operating income (loss)	\$ (249,038)	\$ 901,424
Items not requiring cash		
Depreciation and amortization	943,740	896,648
Loss on sale of capital assets	13,524	—
Changes in		
Patient and other receivables	283,104	(151,420)
Supplies	(97,704)	(23,510)
Prepaid expenses	(16,225)	(5,197)
Accounts payable and accrued expenses	(123,423)	92,069
Estimated amounts due to third-party payers	(36,000)	859,000
Other assets	<u>(201,743)</u>	<u>—</u>
Net cash provided by operating activities	\$ <u>516,235</u>	\$ <u>2,569,014</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 270,248	\$ 119,983

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Washington County Hospital (Hospital) is a 25-bed public hospital and 43-bed long-term care facility organized under Chapter 347 of the Code of Iowa and is governed by a seven member Board of Trustees elected for alternating terms of six years. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Washington County area.

The Hospital is the beneficiary of the Washington County Hospital Foundation, a legally separate not-for-profit corporation. The Foundation was formed to “encourage, accept and steward all public and private gifts, grants and contributions in support of the mission of Washington County Hospital.” The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the FASB that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 3.7% and 3.8% of its financial support from property tax revenues in the years ended June 30, 2006 and 2005, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the county Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Investments and Investment Income

Investments in U. S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets restricted by donors, (2) assets restricted under indenture agreements, and (3) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Supplies

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 to 20 years
Buildings and improvements	5 to 40 years
Equipment	5 to 15 years

Deferred Financing Costs

Costs incurred in connection with issuance of the revenue bonds have been deferred and are being amortized to expense over the life of the bonds using the interest method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as paid time off benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$81,110 and \$25,376 for 2006 and 2005, respectively.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Income Taxes

As an essential government function of the county, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state tax law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 49% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2006 and 2005, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2006 and 2005 was:

	<u>2006</u>	<u>2005</u>
Medicare and Medicaid	\$ 462,465	\$ 590,449
Other third-party payers	776,125	805,287
Patients	1,386,119	1,512,288
Clinics	<u>180,074</u>	<u>135,251</u>
	2,804,783	3,043,275
Less allowances for uncollectible accounts	<u>559,122</u>	<u>521,000</u>
	\$ <u>2,245,661</u>	\$ <u>2,522,275</u>

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

At June 30, 2006 and 2005, the Hospital had the following investments and maturities:

Type	Fair Value	June 30, 2006			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 94,466	\$ 94,466	\$ —	\$ —	\$ —
Government obligations-Hospital	677,426	—	4,109	—	673,317
Money market funds-Foundation	<u>14,638</u>	<u>14,638</u>	<u>—</u>	<u>—</u>	<u>—</u>
	786,530	\$ <u>109,104</u>	\$ <u>4,109</u>	\$ <u>0</u>	\$ <u>673,317</u>
Equity mutual funds-Foundation	<u>1,086,112</u>				
	<u>\$ 1,872,642</u>				

Type	Fair Value	June 30, 2005			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 408,891	\$ 408,891	\$ —	\$ —	\$ —
Government obligations-Hospital	353,810	—	—	7,272	346,538
Money market funds-Foundation	<u>13,956</u>	<u>13,956</u>	<u>—</u>	<u>—</u>	<u>—</u>
	776,657	\$ <u>422,847</u>	\$ <u>0</u>	\$ <u>7,272</u>	\$ <u>346,538</u>
Equity mutual funds-Foundation	<u>953,191</u>				
	<u>\$ 1,729,848</u>				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy for investments considered over operating funds is with maturities less than 397 days. Other investments are to have maturities consistent with the needs and use of the Hospital. The money market funds and money market mutual funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. The government obligations are presented in their respective category based on final maturity date.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2006 and 2005, the Hospital's money market mutual funds are rated AAA by Standard and Poors while the Foundation's money market funds are AAA for both years rated by Standard and Poors. The Hospital's government obligations were rated AAA for both years by Standard and Poors.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2006 and 2005, the Hospital's investment in the Federal Home Loan Mortgage Corporation bonds was 0.2% and 10%, respectively, while the Hospital's investment in the Federal National Mortgage Association bonds was 36% and 19%, respectively.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2006	2005
Carrying value		
Deposits	\$ 5,925,442	\$ 7,124,961
Investments	<u>1,975,224</u>	<u>1,898,697</u>
	<u>\$ 7,900,666</u>	<u>\$ 9,023,658</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,188,706	\$ 3,461,420
Short-term investments	1,262,114	1,052,804
Assets held under indenture agreement – current	503,279	500,963
Noncurrent cash and investments	<u>3,946,567</u>	<u>4,008,471</u>
	<u>\$ 7,900,666</u>	<u>\$ 9,023,658</u>

Investment Income

Investment income for the years ended June 30, 2006 and 2005 consisted of:

	2006	2005
Interest and dividend income	\$ 252,174	\$ 217,888
Net increase in fair value of investments	<u>86,813</u>	<u>59,022</u>
	<u>\$ 338,987</u>	<u>\$ 276,910</u>

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2006 and 2005, were as follows:

	Balance June 30, 2005	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2006
2006					
Land	\$ 10,902	\$ —	\$ —	\$ —	\$ 10,902
Land improvements	333,405	—	(13,603)	—	319,802
Buildings and leasehold improvements	9,906,643	—	(882,262)	—	9,024,381
Equipment	7,560,005	792,060	(1,978,671)	—	6,373,394
Construction in progress	<u>50,123</u>	<u>1,864,618</u>	<u>—</u>	<u>—</u>	<u>1,914,741</u>
	<u>17,861,078</u>	<u>2,656,678</u>	<u>(2,874,536)</u>	<u>—</u>	<u>17,643,220</u>
Less accumulated depreciation for					
Land improvements	(228,097)	(16,689)	13,602	—	(231,184)
Buildings and leasehold improvements	(5,456,849)	(424,457)	882,262	—	(4,999,044)
Equipment	<u>(5,999,792)</u>	<u>(496,778)</u>	<u>1,965,426</u>	<u>(278)</u>	<u>(4,531,422)</u>
	<u>(11,684,738)</u>	<u>(937,924)</u>	<u>2,861,290</u>	<u>(278)</u>	<u>(9,761,650)</u>
	<u>\$ 6,176,340</u>	<u>\$ 1,718,754</u>	<u>\$ (13,246)</u>	<u>\$ (278)</u>	<u>\$ 7,881,570</u>
2005					
	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Land	\$ 10,902	\$ —	\$ —	\$ —	\$ 10,902
Land improvements	333,405	—	—	—	333,405
Buildings and leasehold improvements	9,906,643	—	—	—	9,906,643
Equipment	7,250,446	309,559	—	—	7,560,005
Construction in progress	<u>—</u>	<u>50,123</u>	<u>—</u>	<u>—</u>	<u>50,123</u>
	<u>17,501,396</u>	<u>359,682</u>	<u>—</u>	<u>—</u>	<u>17,861,078</u>
Less accumulated depreciation for					
Land improvements	(211,407)	(16,690)	—	—	(228,097)
Buildings and leasehold improvements	(5,032,353)	(424,496)	—	—	(5,456,849)
Equipment	<u>(5,550,776)</u>	<u>(449,016)</u>	<u>—</u>	<u>—</u>	<u>(5,999,792)</u>
	<u>(10,794,536)</u>	<u>(890,202)</u>	<u>—</u>	<u>—</u>	<u>(11,684,738)</u>
	<u>\$ 6,706,860</u>	<u>\$ (530,520)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,176,340</u>

Construction in progress relates to a facility replacement and renovation project with a total cost expected to be \$19,899,000 and proposed completion in 2008. The Hospital will use internally designated cash and investments and borrowed amounts to complete the project. See Note 7 regarding 2006 bond issue.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 6: Investment in Land

The Hospital was a beneficiary of a trust that donated an undivided interest in land in Brazoria County, Texas. The land is recorded at its estimated value based on a basis from the Brinton Charitable Trust.

Note 7: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2006 and 2005 follows.

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ <u>3,240,000</u>	\$ <u>—</u>	\$ <u>(335,000)</u>	\$ <u>2,905,000</u>	\$ <u>355,000</u>

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ <u>3,560,000</u>	\$ <u>—</u>	\$ <u>(320,000)</u>	\$ <u>3,240,000</u>	\$ <u>335,000</u>

- (A) Hospital Revenue Bonds, Series 1997; \$5,200,000 maturing serially at varying amounts through 2012; semiannual interest payments at rates ranging from 5.10% to 5.65%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Scheduled principal and interest repayments on recorded long-term debt are as follows:

	Principal	Interest	Total
2007	\$ 355,000	\$ 148,279	\$ 503,279
2008	370,000	129,517	499,517
2009	390,000	109,562	499,562
2010	410,000	88,158	498,158
2011	435,000	65,125	500,125
2012 – 2013	<u>945,000</u>	<u>53,984</u>	<u>998,984</u>
	<u>\$ 2,905,000</u>	<u>\$ 594,625</u>	<u>\$ 3,499,625</u>

On July 6, 2006, the Hospital issued Series 2006 Hospital Revenue Bonds; \$3,110,000 maturing serially at varying amounts through 2017, semiannual interest payments at rates ranging from 4.5% to 5.5%; \$7,750,000 term bonds with mandatory sinking fund redemption, due July 2026 with an interest rate of 5.375% and \$7,640,000 term bonds with mandatory sinking fund redemption, due July 2032 with an interest rate of 5.50%; collateralized by the Hospital's net revenues. The scheduled principal and interest repayments on this long-term debt are as follows:

	Principal	Interest	Total
2007	\$ —	\$ 445,020	\$ 445,020
2008	—	995,075	995,075
2009	25,000	994,513	1,019,513
2010	25,000	993,372	1,018,372
2011	25,000	992,200	1,017,200
2012 – 2016	1,750,000	4,823,244	6,573,244
2017 – 2021	3,475,000	4,079,534	7,554,534
2022 – 026	4,510,000	3,014,481	7,524,481
2027 – 2031	5,865,000	1,617,031	7,482,031
2032 – 2033	<u>2,825,000</u>	<u>157,437</u>	<u>2,982,437</u>
	<u>\$ 18,500,000</u>	<u>\$ 18,111,907</u>	<u>\$ 36,611,907</u>

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 8: Operating Leases

A noncancelable operating lease for equipment will expire June 2010.

Future minimum lease payments at June 30, 2006, are:

2007	\$ 232,564
2008	179,100
2009	179,100
2010	<u>74,625</u>
Future minimum lease payments	<u>\$ 665,389</u>

Rental expense for all operating leases was \$288,626 and \$217,577 for the years ended June 30, 2006 and 2005, respectively.

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to \$30,000 per eligible participant. Commercial stop-loss insurance coverage is purchased for claims in excess of \$30,000. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors.

Activity in the Hospital's accrued employee health claims liability during 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 119,872	\$ 100,000
Current year claims incurred and changes in estimates for claims incurred in prior years	974,511	1,127,411
Claims and expenses paid	<u>1,001,566</u>	<u>1,107,539</u>
Balance, end of year	<u>\$ 92,817</u>	<u>\$ 119,872</u>

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 10: Defined Benefit Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by state statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$454,477, \$399,244 and \$346,445, respectively, which equaled the required contributions for each year.

Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

Washington County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 714,751	\$ —	\$ 714,751	\$ 716,497
Other revenues/receipts	<u>18,824,638</u>	<u>45,361</u>	<u>18,869,999</u>	<u>22,183,822</u>
	19,539,389	45,361	19,584,750	22,900,319
Expenses/disbursements	<u>18,572,733</u>	<u>(110,965)</u>	<u>18,461,768</u>	<u>19,534,903</u>
	966,656	156,326	1,122,982	3,365,416
Balance, beginning of year	<u>12,674,115</u>	<u>2,224,226</u>	<u>14,898,341</u>	<u>14,898,341</u>
Balance, end of year	\$ <u>13,640,771</u>	\$ <u>2,380,552</u>	\$ <u>16,021,323</u>	\$ <u>18,263,757</u>

Note 12: Restricted and Designated Net Assets

At June 30, 2006 and 2005, restricted expendable net assets were available for the following purposes.

	2006	2005
Debt service	\$ 693,182	\$ 675,450
Specific operating activities and capital acquisition	<u>52,400</u>	<u>44,343</u>
	\$ <u>745,582</u>	\$ <u>719,793</u>

At June 30, 2006 and 2005, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes.

	2006	2005
Capital and other expenditures	\$ <u>3,522,971</u>	\$ <u>3,457,191</u>

Designated net assets remain under the control of the Board of Trustees. The Board may, at its discretion, later use these net assets for other purposes.

Washington County Hospital
Notes to Financial Statements
June 30, 2006 and 2005

Note 13: IPERS Review

The Hospital is the subject of a review by IPERS regarding amounts remitted for employees. Management believes the Hospital's policies and records fully support the amounts remitted and intends to vigorously defend the Hospital, including an appeal that has been filed with IPERS. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Supplementary Information

Washington County Hospital

Combining Balance Sheet

June 30, 2006

Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 2,079,080	\$ 109,626		\$ 2,188,706
Short-term investments		1,262,114		1,262,114
Assets held under indenture agreement – current	503,279			503,279
Patient accounts receivable	2,245,661			2,245,661
Other receivable	14,691			14,691
Succeeding year property tax settlements	742,799			742,799
Supplies	402,187			402,187
Prepaid expenses	<u>50,644</u>			<u>50,644</u>
Total current assets	<u>6,038,341</u>	<u>1,371,740</u>		<u>7,410,081</u>
Noncurrent Cash and Investments				
Internally designated				
Capital and other expenditures	3,522,971			3,522,971
Externally restricted				
Indenture agreement	268,614			268,614
Donors		52,400		52,400
Investment in land	<u>102,582</u>			<u>102,582</u>
	<u>3,894,167</u>	<u>52,400</u>		<u>3,946,567</u>
Capital Assets, net of accumulated depreciation	<u>7,881,570</u>			<u>7,881,570</u>
Other Assets				
Foundation assets		29,364		29,364
Deferred financing costs	19,058			19,058
Physician receivables	<u>201,743</u>			<u>201,743</u>
Total Other Assets	<u>220,801</u>	<u>29,364</u>		<u>250,165</u>
Total Assets	<u>\$ 18,034,879</u>	<u>\$ 1,453,504</u>		<u>\$ 19,488,383</u>

Washington County Hospital

Combining Balance Sheet

June 30, 2006

Liabilities and Net Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 355,000			\$ 355,000
Accounts payable	452,377			452,377
Accrued expenses				
Salaries and wages	276,346			276,346
Paid time off	411,831			411,831
Payroll taxes and other payroll withholdings	80,004			80,004
Self funded health insurance payable	92,817			92,817
Interest	78,710			78,710
Deferred revenue for succeeding year property tax receivable	742,799			742,799
Property taxes	33,728			33,728
Estimated third-party settlements	<u>774,000</u>			<u>774,000</u>
Total current liabilities	3,297,612			3,297,612
Long-Term Debt, less current maturities	<u>2,550,000</u>			<u>2,550,000</u>
Total liabilities	<u>5,847,612</u>			<u>5,847,612</u>
Net Assets				
Invested in capital assets, net of related debt	4,725,380			4,725,380
Unrestricted	6,768,705	\$ 1,401,104		8,169,809
Restricted expendable				
Debt service	693,182			693,182
Donor restricted	<u> </u>	<u>52,400</u>		<u>52,400</u>
Total net assets	<u>12,187,267</u>	<u>1,453,504</u>		<u>13,640,771</u>
Total Liabilities and Net Assets	<u>\$ 18,034,879</u>	<u>\$ 1,453,504</u>		<u>\$ 19,488,383</u>

Washington County Hospital
Combining Schedule of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2006

	Washington County Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 19,084,228			\$ 19,084,228
Provision for uncollectible accounts	<u>(1,260,883)</u>			<u>(1,260,883)</u>
Net patient service revenue	17,823,345			17,823,345
Other	<u>342,930</u>			<u>342,930</u>
	<u>18,166,275</u>			<u>18,166,275</u>
Operating Expenses				
Salaries and wages	7,830,754			7,830,754
Employee benefits	2,177,522			2,177,522
Medical professional fees	2,178,385			2,178,385
Supplies and other	2,204,841			2,204,841
General services	1,080,335			1,080,335
Administrative services	1,343,458			1,343,458
Depreciation and amortization	943,740			943,740
Building demolition and removal	329,923			329,923
Insurance	<u>326,355</u>			<u>326,355</u>
Total expenses	<u>18,415,313</u>			<u>18,415,313</u>
Operating Loss	<u>(249,038)</u>			<u>(249,038)</u>
Nonoperating Revenue (Expense)				
Investment income	204,291	\$ 134,696		338,987
Interest expense	(157,420)			(157,420)
Property tax revenue	714,751			714,751
Noncapital contributions	298,858	(10,066)		288,792
Foundation gift shop, net	<u> </u>	<u>30,584</u>		<u>30,584</u>
	<u>1,060,480</u>	<u>155,214</u>		<u>1,215,694</u>
Excess of Revenues Over Expenses	<u>\$ 811,442</u>	<u>\$ 155,214</u>		<u>\$ 966,656</u>

Washington County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical/surgical	\$ 2,589,400	\$ 1,771,122	\$ 818,278	\$ 2,464,046	\$ 1,787,114	\$ 676,932
Obstetrics	310,276	275,795	34,481	232,481	209,790	22,691
Labor and delivery	28,718	3,486	25,232	21,248	3,320	17,928
Special care unit	104,550	104,550		136,700	136,700	
Nursery	100,775	100,775		90,500	90,500	
Swing-bed	1,153,224	1,153,224		1,316,648	1,316,648	
Long-term care	1,956,445	1,956,445		1,795,572	1,795,572	
Operating and recovery	2,343,912	256,690	2,087,222	2,187,232	263,967	1,923,265
Emergency	<u>2,473,176</u>	<u>49,100</u>	<u>2,424,076</u>	<u>2,003,383</u>	<u>82,054</u>	<u>1,921,329</u>
	<u>11,060,476</u>	<u>5,671,187</u>	<u>5,389,289</u>	<u>10,247,810</u>	<u>5,685,665</u>	<u>4,562,145</u>
Other Professional Services						
Central service and supply	580,950	219,491	361,459	385,026	200,288	184,738
Laboratory	2,962,434	548,736	2,413,698	2,259,420	475,957	1,783,463
Radiology	5,352,158	458,748	4,893,410	4,625,617	371,307	4,254,310
Pharmacy	3,713,938	1,958,366	1,755,572	4,131,357	2,075,735	2,055,622
Anesthesiology	850,418	235,252	615,166	665,831	188,612	477,219
Physical therapy	612,885	62,572	550,313	551,805	63,949	487,856
Speech therapy	34,944	4,531	30,413	9,347	3,804	5,543
Occupational therapy	63,652	23,313	40,339	41,429	16,919	24,510
Respiratory therapy	920,351	761,189	159,162	950,671	811,093	139,578
Electrocardiology	239,394	39,383	200,011	228,779	43,653	185,126
Cardiac rehabilitation	162,772	623	162,149	191,677	1,466	190,211
Ambulatory care	215,903		215,903	297,323		297,323
Surgery clinic	444,935		444,935	642,966		642,966
Keota clinic	168,413		168,413	117,935		117,935
Wayland clinic				150		150
Women's healthcare clinic	511,358		511,358			
Sisam clinic	<u>5,781</u>		<u>5,781</u>	<u>204,172</u>		<u>204,172</u>
	<u>16,840,286</u>	<u>4,312,204</u>	<u>12,528,082</u>	<u>15,303,505</u>	<u>4,252,783</u>	<u>11,050,722</u>
Patient Service Revenue	27,900,762	\$ <u>9,983,391</u>	\$ <u>17,917,371</u>	25,551,315	\$ <u>9,938,448</u>	\$ <u>15,612,867</u>
Contractual Allowances	<u>8,816,534</u>			<u>8,159,472</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	19,084,228			17,391,843		
Provision for Uncollectible Accounts	<u>(1,260,883)</u>			<u>(623,469)</u>		
Net Patient Service Revenue	\$ <u>17,823,345</u>			\$ <u>16,768,374</u>		

Washington County Hospital
Schedules of Other Revenues
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Rental income	\$ 204,951	\$ 201,570
Cafeteria	76,312	75,277
Meals on Wheels	6,443	6,303
Lifeline services	49,528	48,300
Other	4,584	24,845
Contracted social work	357	18,824
Education program	<u>755</u>	<u>1,100</u>
	\$ <u>342,930</u>	\$ <u>376,219</u>

Washington County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 114,075	\$ 107,069	\$ 7,006	\$ 106,329	\$ 100,823	\$ 5,506
Medical/surgical	1,507,036	1,289,068	217,968	1,434,710	1,237,125	197,585
Obstetrics and nursery	202,941	192,617	10,324	179,024	169,334	9,690
Special care unit	14		14	4,986	4,911	75
Long-term care	1,122,889	1,065,298	57,591	1,101,000	1,046,447	54,553
Operating and recovery	469,051	328,145	140,906	315,688	269,350	46,338
Emergency	1,234,436	441,817	792,619	1,036,735	436,331	600,404
	<u>4,650,442</u>	<u>3,424,014</u>	<u>1,226,428</u>	<u>4,178,472</u>	<u>3,264,321</u>	<u>914,151</u>
Other Professional Services						
Laboratory	923,322	422,549	500,773	844,611	426,533	418,078
Radiology	1,381,884	381,814	1,000,070	1,228,908	360,150	868,758
Cardiac rehabilitation	48,709	35,000	13,709	46,786	30,980	15,806
Pharmacy	1,058,241	226,534	831,707	1,036,781	199,284	837,497
Anesthesiology	285,322	97,473	187,849	276,147	92,891	183,256
Physical therapy	220,984	198,480	22,504	207,074	166,463	40,611
Speech therapy	16,526		16,526	5,108		5,108
Occupational therapy	29,723		29,723	17,686		17,686
Electrocardiology	29,533		29,533	20,709		20,709
Medical supplies	418,466	116,593	301,873	363,008	100,475	262,533
Respiratory therapist	97,626	67,834	29,792	96,638	68,337	28,301
Ambulatory care	41,781	36,560	5,221	55,322	50,177	5,145
Specialty clinic	8,627	8,627		9,368	9,368	
Wayland clinic	81		81	38		38
Keota clinic	157,109	116,162	40,947	122,181	86,152	36,029
Sisam clinic	207		207	305,771	39,005	266,766
Women's healthcare clinic	424,614	331,074	93,540			
Lifeline	38,263	5,089	33,174	30,921	8,804	22,117
Surgery clinic	348,391	328,822	19,569	247,453	230,839	16,614
	<u>5,529,409</u>	<u>2,372,611</u>	<u>3,156,798</u>	<u>4,914,510</u>	<u>1,869,458</u>	<u>3,045,052</u>
General Services						
Dietary	739,798	274,574	465,224	730,087	257,204	472,883
Operation of plant	705,359	145,346	560,013	680,929	130,498	550,431
Housekeeping	255,310	227,604	27,706	237,677	198,727	38,950
Laundry	95,059	67,667	27,392	90,122	68,471	21,651
	<u>1,795,526</u>	<u>715,191</u>	<u>1,080,335</u>	<u>1,738,815</u>	<u>654,900</u>	<u>1,083,915</u>
Administrative Services						
Medical records	460,089	383,434	76,655	367,591	301,371	66,220
Administration	2,047,518	866,163	1,181,355	1,664,184	851,997	812,187
Foundation	42,243	41,224	1,019	41,031	40,019	1,012
Marketing	112,546	28,117	84,429	78,569	25,410	53,159
	<u>2,662,396</u>	<u>1,318,938</u>	<u>1,343,458</u>	<u>2,151,375</u>	<u>1,218,797</u>	<u>932,578</u>
Insurance	<u>326,355</u>		<u>326,355</u>	<u>265,240</u>		<u>265,240</u>
Employee Benefits	<u>2,177,522</u>		<u>2,177,522</u>	<u>2,098,109</u>		<u>2,098,109</u>
Depreciation and Amortization	<u>943,740</u>		<u>943,740</u>	<u>896,648</u>		<u>896,648</u>
Building Demolition and Removal	<u>329,923</u>		<u>329,923</u>			
	<u>\$ 18,415,313</u>	<u>\$ 7,830,754</u>	<u>\$ 10,584,559</u>	<u>\$ 16,243,169</u>	<u>\$ 7,007,476</u>	<u>\$ 9,235,693</u>

Washington County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2006 and 2005

Schedules of Patient Receivables

	2006		2005	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 1,779,626	55.0	\$ 1,833,534	52.8
31-60 days	430,674	13.3	376,690	10.9
61-90 days	218,182	6.7	271,999	7.8
91-120 days	199,107	6.2	167,178	4.8
Over 4 months	<u>610,120</u>	<u>18.8</u>	<u>821,623</u>	<u>23.7</u>
Total	3,237,709	<u>100.0</u>	3,471,024	<u>100.0</u>
Clinic and other receivables	180,074		135,251	
Less contractual allowances	613,000		563,000	
Less allowance for uncollectible accounts	<u>559,122</u>		<u>521,000</u>	
Net patient receivables	\$ <u>2,245,661</u>		\$ <u>2,522,275</u>	

Allowance for Uncollectible Accounts

	2006	2005
Balance, beginning of year	\$ 521,000	\$ 521,000
Provision for year	1,260,883	623,469
Recoveries of accounts previously written off	<u>187,216</u>	<u>141,457</u>
	1,969,099	1,285,926
Accounts written off	<u>1,409,977</u>	<u>764,926</u>
Balance, end of year	\$ <u>559,122</u>	\$ <u>521,000</u>

Washington County Hospital
Schedule of Officials
June 30, 2006

Name	Title	Term Expires
Board of Trustees		
Jim Harris	Chairman	November, 2006
Cheryl Kurtz	Vice Chairperson	November, 2010
Keith Lazar	Secretary	November, 2008
Leonard Kull	Treasurer	November, 2008
Karolyn Leary	Member	November, 2010
Ed Weeks	Member	November, 2006
James Mostek	Member	November, 2008
Hospital Officials		
Don Patterson	Chief Executive Officer	
Greg Seubert	Chief Financial Officer	

Washington County Hospital
Schedule of Supplies and Prepaid Expenses
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Supplies		
Pharmacy	\$ 163,715	\$ 115,731
Operating and recovery rooms	101,761	64,762
Store room	40,786	39,276
Laboratory	38,819	33,961
Radiology	12,748	12,583
Emergency	11,101	7,749
Dietary	10,961	8,494
All other	<u>22,296</u>	<u>21,927</u>
	\$ <u><u>402,187</u></u>	\$ <u><u>304,483</u></u>
 Prepaid Expenses		
Insurance	\$ 42,499	\$ 34,419
Dues	<u>8,145</u>	<u>—</u>
	\$ <u><u>50,644</u></u>	\$ <u><u>34,419</u></u>

Washington County Hospital

Schedule of Insurance Coverage

June 30, 2006

Farm Bureau

Workers' compensation; expires 12/01/06	\$	500,000
---	----	---------

MMIC

Professional liability; expires 11/01/06	\$	1,000,000 / 3,000,000
General liability; expires 11/01/06	\$	1,000,000 / 3,000,000
Umbrella liability; expires 11/01/06	\$	1,000,000 / 3,000,000

Chubb Insurance

Building and contents; expires 05/30/07	\$	18,614,100
Nuclear hazard; expires 05/30/07	\$	5,000,000
Loss of business income; expires 05/30/07	\$	804,159
Auto; expires 05/30/07	\$	500,000

Chubb Insurance

Directors and officers; expires 05/30/07	\$	2,000,000
--	----	-----------

Sellers Insurance

Fidelity bond; expires 11/01/06	\$	500,000
---------------------------------	----	---------

Horak Insurance

Surety bond; expires 08/29/06	\$	2,500
-------------------------------	----	-------

Washington County Hospital

Statistical Information

Year Ended June 30, 2006

	2006	2005
Patient Days		
Acute	2,607	2,780
Swing-bed	1,615	2,030
Newborn	192	186
Long-term care	<u>14,886</u>	<u>15,101</u>
Total	<u><u>19,300</u></u>	<u><u>20,097</u></u>
Discharges		
Acute	825	842
Swing-bed	290	321
Long-term care	<u>28</u>	<u>32</u>
Total	<u><u>1,143</u></u>	<u><u>1,195</u></u>
Average Length of Stay		
Acute	3.16	3.30
Swing-bed	5.57	6.32
Long-term care	531.64	471.91
Beds		
Acute	25	25
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	46.37%	52.71%
Long-term care	94.85%	96.22%



Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Washington County Hospital
Washington, Iowa

We have audited the financial statements of Washington County Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement—Management is responsible for establishing policies regarding questionable expenditures.

Condition—The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context—Written policies are not in effect.

Effect—Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause—Written policies are not in place.

Recommendation—Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital was required to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Board of Trustees
Washington County Hospital
Page 4

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated August 31, 2006.

This report is intended solely for the information and use of the governing body, management and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 31, 2006

Washington County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2006

Reference Number	Finding
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Certain individuals have incompatible duties in the revenue, cash disbursements and payroll transactions cycles.</p> <p>Context—Individuals responsible for processing cash receipts, cash disbursements and recording and monitoring payroll information, have duties which include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the revenue, cash disbursements and payroll transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>



Board of Trustees
Washington County Hospital
Washington, Iowa

As part of our audit of the financial statements of Washington County Hospital for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2005 audit engagement in a letter dated August 31, 2005.

Segregation of Duties

Certain matters regarding internal controls were included in the Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

We noted the accounts payable/payroll clerk has duties that include access to assets and recording responsibilities in the purchases and payroll cycles. We recommend another person be responsible for check signing and access to those checks after they are signed.

We also noted the Financial Credit Counselor has access and recording responsibilities in the revenue cycle. We understand the Patient Financial Services Director does periodically check receipt/logs compared to cash posted. We recommend management review the process to ensure proper controls are in place and there is adequate review of the cash receipts.

Standard Accounting Policies and Procedures

There is little written documentation of accounting or data processing procedures. Internal control is strengthened by identifying and documenting accounting procedures and responsibilities of accounting personnel. This is also important for the compliance program. We understand the Hospital is in the process of documenting policies and procedures. We recommend continuing the effort to develop written documentation of controls and procedures to strengthen the Hospital's ability to continue to operate efficiently, especially in the event of unexpected employee turnover.

Accounts Receivable

The Hospital has made significant changes in its accounts receivable collection procedures this past year including writing off a large amount of accounts receivable deemed uncollectible. The Hospital needs to continue to evaluate the allowance for bad debts to ensure that it is reasonable with amounts being written off. The Hospital should evaluate this based on a historical sample of write-offs of accounts receivable during the year.

Risk Assessment Audit Standards

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These standards are effective for fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will most likely be June 30, 2008.

* * * * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 31, 2006